

Latest development in QFII, RQFII and QDII

29 October 2012

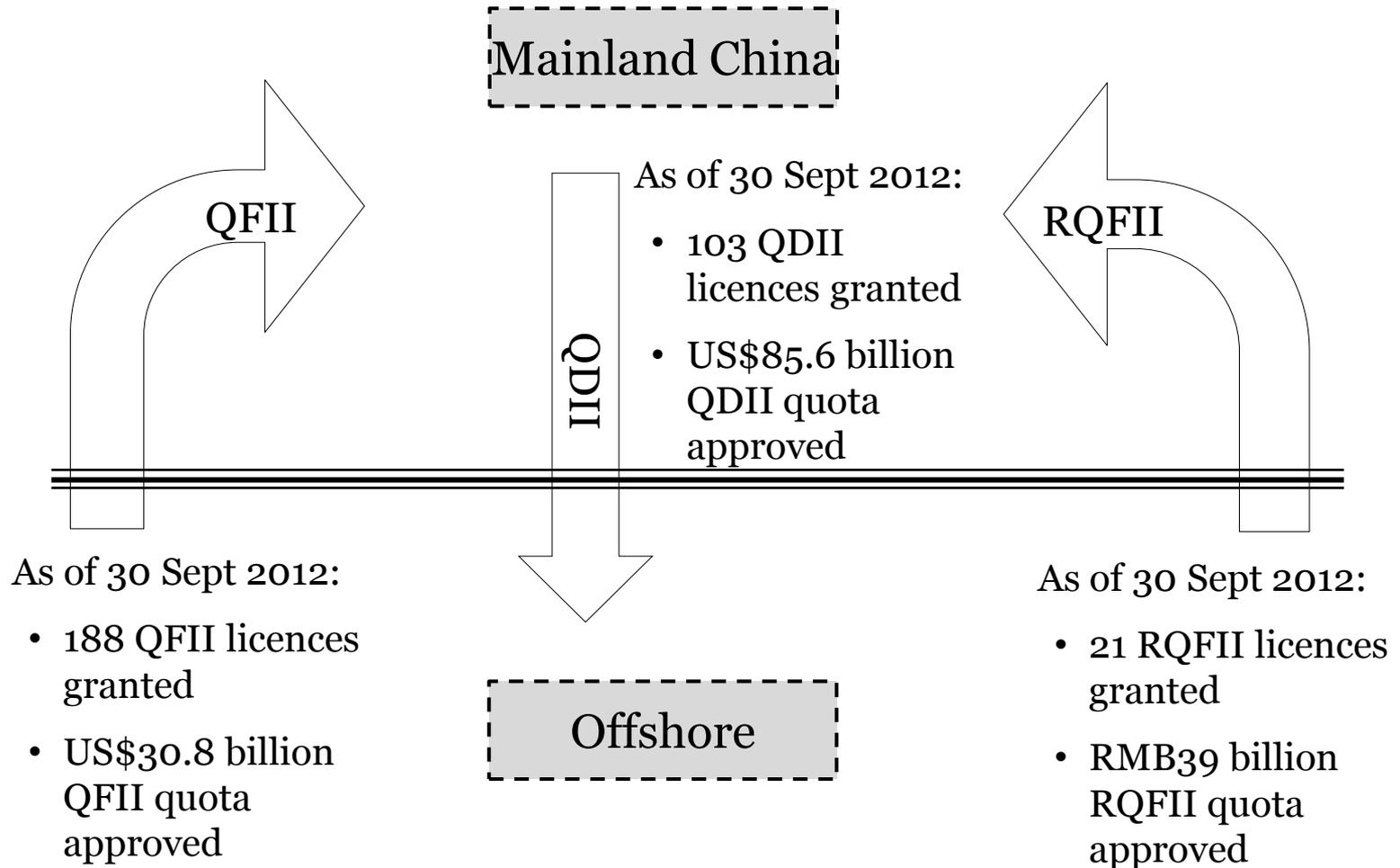
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Overview of Capital Flows under QFII, RQFII and QDII

Overview of Capital Flows under QFII, RQFII and QDII

Cross border capital flows under portfolio management are expected to be accelerated.

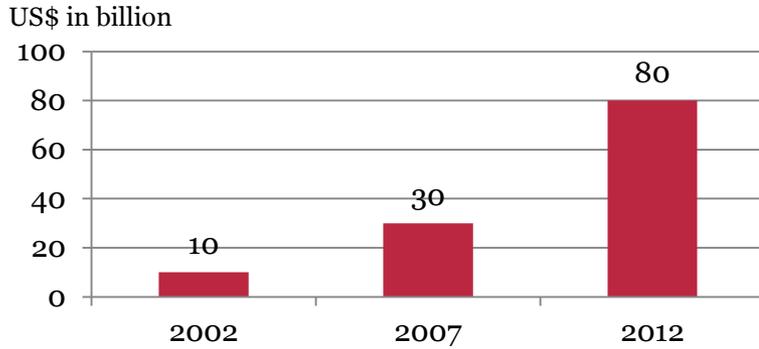


QFII: Unleashing Growth

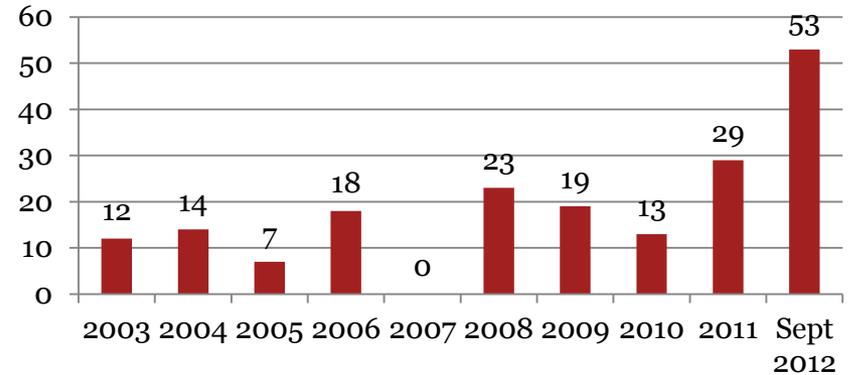
QFII: Unleashing Growth

Overview of China's QFII Market and accelerated QFII approvals since the start of 2012.

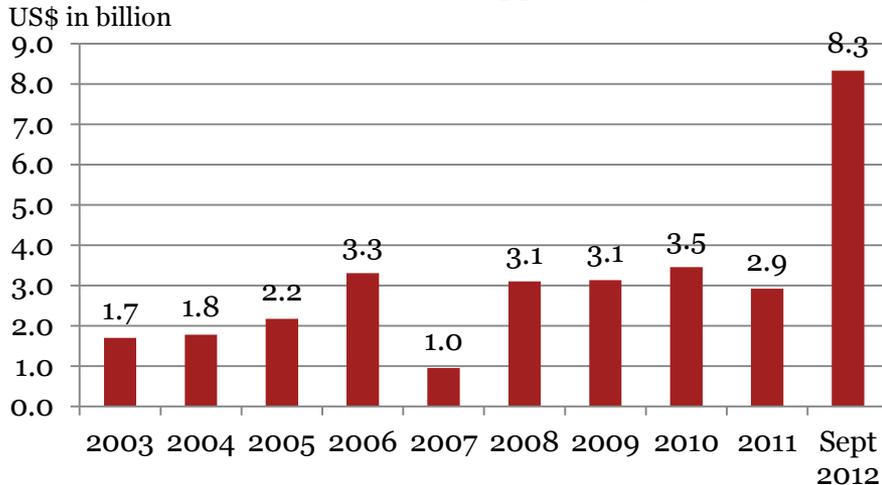
Total Available QFII Quota



Number of QFII Licences Approved by CSRC

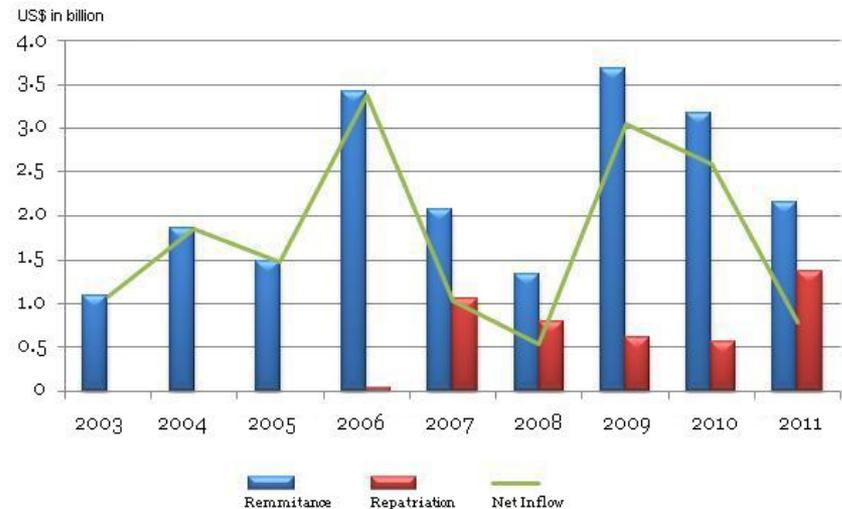


QFII Investment Quota Approved by SAFE



Source: <http://www.safe.gov.cn/>

QFII's Fund Remittance and Repatriation



QFII: Unleashing Growth

Relaxation of QFII rules introduced in July 2012.

Lower the requirements of QFII applicants

The requirement on AUM for foreign asset management institutions, insurance companies and other institutions including pension fund and charitable foundation, etc., in the most recent year is reduced from US\$5 billion to US\$500 million. The requirement on the years of establishment for such applicants is reduced from 5 years to 2 years.

The requirement on AUM for foreign securities companies and commercial banks in the most recent year is reduced from US\$10 billion to US\$5 billion.

Simplify the QFII license application documents

QFII applicants are no longer required to submit the articles of association and the draft custody agreement. Submission of “audited financial statements” is required for the most recent year instead of the most recent three years.

Allow the opening of multi-trading accounts through more than one broker

A QFII may open more than one securities accounts, which shall correspond to the special RMB accounts approved by the SAFE.

Expand the investment scopes of QFIIs

The investment scopes of QFIIs are expanded to include stock index futures and fixed income instruments traded in the inter-bank bond market.

Relax the limits on shareholding ratio

The upper limit on shareholding ratio by all foreign investors is increased from 20% to 30%.

Allow fund management companies to manage QFII assets by means of segregated accounts

QFIIs may appoint domestic fund management companies to provide assets management services of specific clients (“Segregated Accounts”). The investment scope shall comply with relevant provisions of QFII.

QFII: Unleashing Growth

Chinese regulators on-going effort in improving transparency and efficiency.

People's Bank of China (“PBOC”) released new rule allowing QFIIs to open special deposit account to access index futures and inter-bank bond market:

QFIIs are allowed to open RMB basic deposit account and special deposit account. Special deposit account is designated to administer funds with special investment purpose in accordance with relevant regulations, such as the trading of stock index futures and interbank bonds.

Clarification of QFII tax rules:

CSRC is looking to reach an agreement with the State Administration of Tax (“SAT”) to impose a 10% withholding tax on QFII investment gains. Detailed calculation methods and timelines have yet to be disclosed.

Facilitation of repatriation of profit and investment principal:

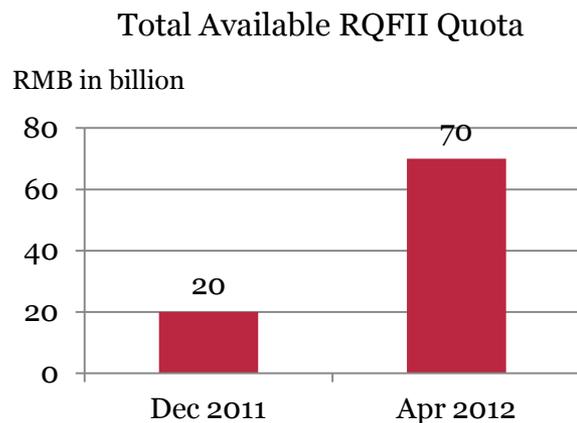
How could the QFII obtain the tax payment certificates from the competent authorities?

How could the QFII produce evidence proving that withholding taxes had been paid on the dividends and interests received from the issuers and the debtors?

RQFII: From Bond Fund to A-share ETF

RQFII: From Bond Fund to A-share ETF

Overview of RQFII approval and product launch.



<i>By 30 Sept 2012</i>	Subsidiaries of domestic fund management companies	Subsidiaries of domestic securities companies	Total
Number of RQFII licence holders	9	12	21
1 st batch RQFII Quota granted (in RMB billion)	10	10	20
Number of RQFII bond funds launched	9	10	19
2 nd batch RQFII quota granted (in RMB billion)	19	0	19
Number of RQFII ETFs launched	4	0	4

Source: <http://www.safe.gov.cn/>

RQFII: From Bond Fund to A-share ETF

Learn quickly from the trial run of first generation RQFII fund.

1st generation RQFII retail bond funds:

- Homogeneous product offering
- Overcrowded distribution channel
- Less competitive total expense ratio
- 6 out of 19 funds appointed parent as investment adviser



2nd generation RQFII A-share ETFs:

- Tracking different A-share indices
- More foreign institutions involved as custodian, trustee and participating dealers
- More competitive total expense ratio due to physical replication strategy
- 4th RQFII ETF launched under dual counter model
- All RQFII ETFs appointed parent as investment adviser



Looking ahead:

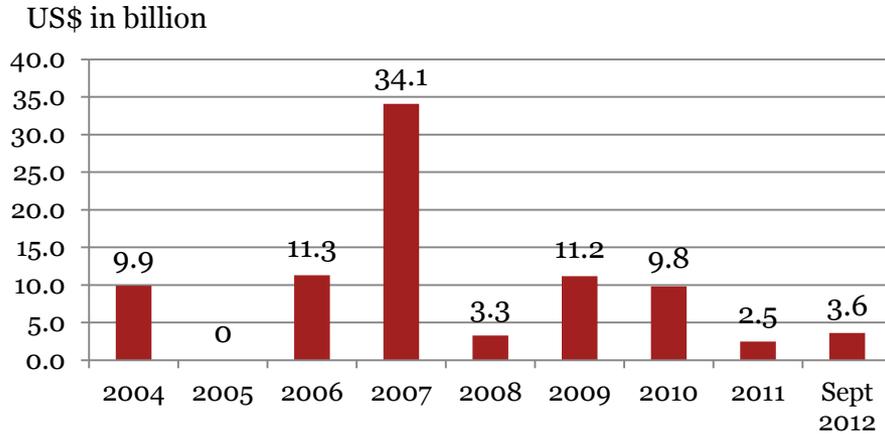
- More RQFII ETFs in the pipeline and more domestic FMC setting up HK subsidiaries
- Clarification of QFII tax rules may help in reducing tracking error
- RQFII programme to be rolled out to other financial centers?

QDII: Slow Recovery with Potential

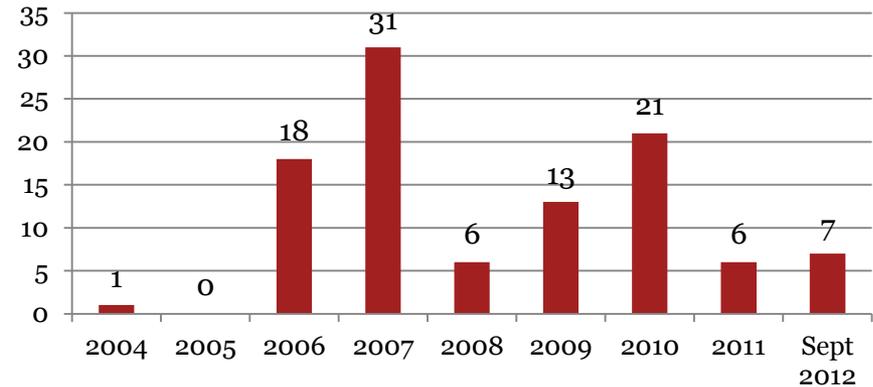
QDII: Slow Recovery with Potential

Overview of China's QDII Market.

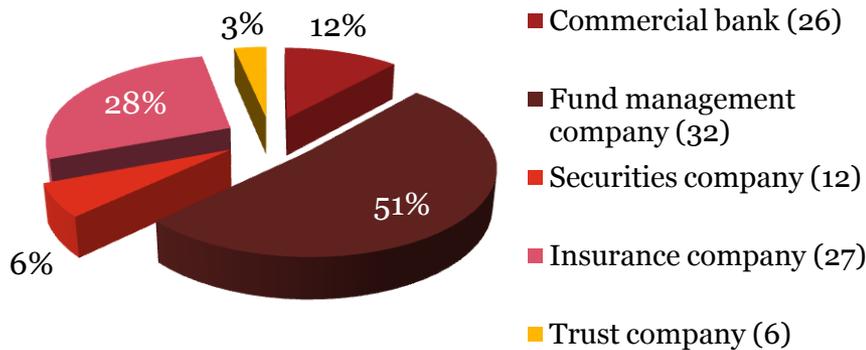
QDII Investment Quota Approved by SAFE



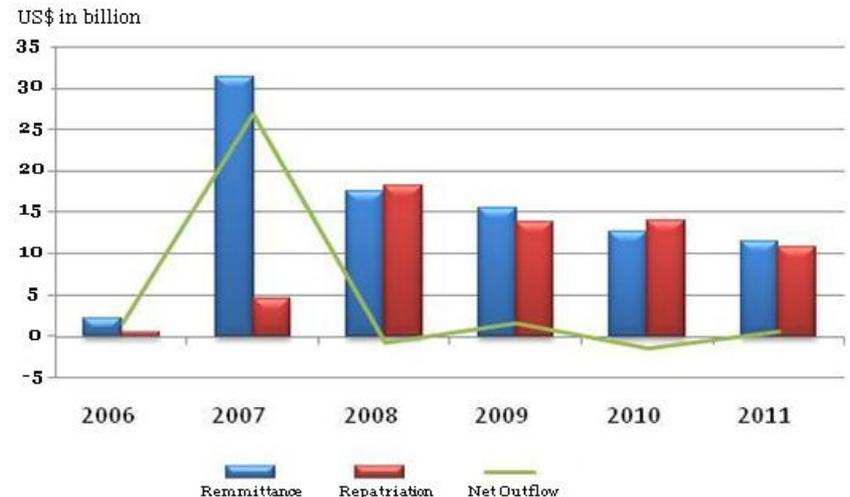
Number of QDII Licences Granted



Approved QDII Investment Quota by 30 Sept 2012



QDII's Fund Remittance and Repatriation

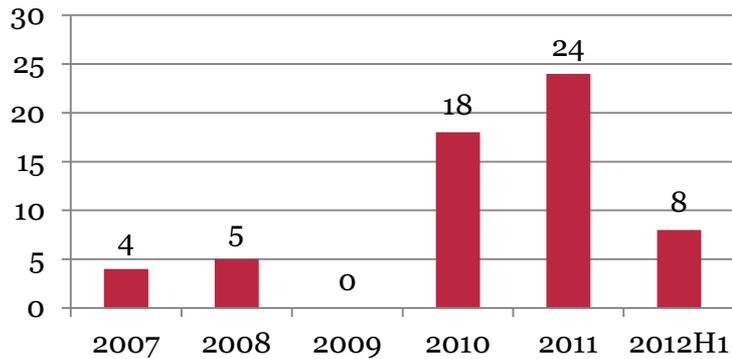


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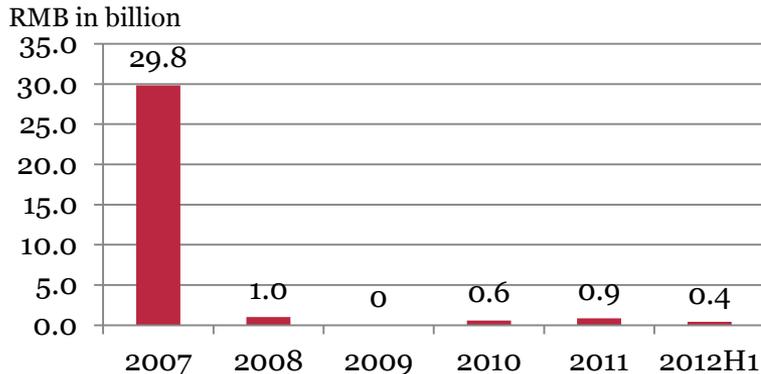
QDII: Slow Recovery with Potential

FMC QDII

Number of FMC QDII Fund Launches



Average Fundraising of FMC QDII Funds



FMC QDII Fund:

- Product offering experienced significant evolution over recent years
- FMC QDII funds becoming polarised in terms of fund size
- Effort to expand into mature markets and different asset classes will continue in a cost controlled manner
- Restoration of retail investor confidence might take longer than expected
- Appointment of sub-investment adviser mainly between JV FMCs and their foreign shareholders
- Two cross-border ETFs tracking HK stock indices launched in August 2012 with a total fund raising of over Rmb9 billion

FMC QDII Segregated Accounts:

- Segregated accounts providing a flexible platform for cooperation with foreign institutions

QDII: *Slow Recovery with Potential*

Other QDII players

Bank QDII:

- Foreign funds offered through bank's QDII channel are packaged as fund-linked structured notes
- Bank QDII funds were predominantly launched in 2007/2008, with no new product offering for two years till Feb 2012
- Recent product launch focusing on improving transparency and avoiding over complexity
- Foreign banks taking a dominant market share in foreign fund distribution, while Chinese banks pursuing opportunities mainly in non-QDII products

Insurance QDII:

- Low activity level so far due to lack of implementation guidance .
- CIRC released a detailed regulation on the overseas investments by insurance companies:
 - ✓ allowing insurers to invest in developed and emerging economies
 - ✓ Broadening the investment scope
 - ✓ specifying the qualifications for foreign participants including overseas investment managers and custodians

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Thanks!

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